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Page Denied

Top Secret



Contents

UK-Argentina: *Continuing Negotiations* 1 25X1



Poland: *Strikes and Demonstrations*. 6

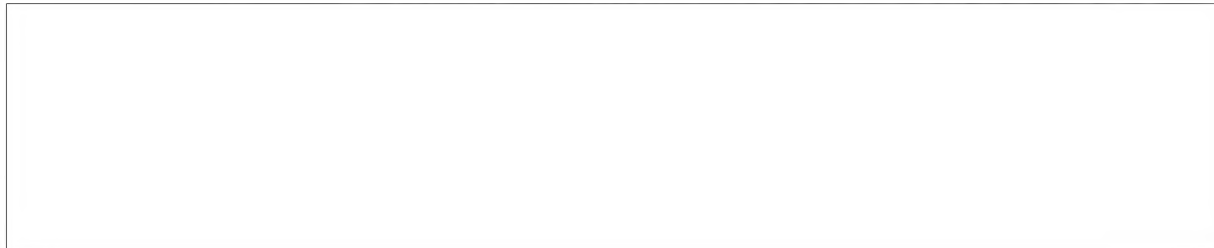
NATO: *Reactions to MBFR Proposal*. 7

Dominican Republic: *Election Outlook*. 8 25X6



Belgium-USSR: *Seeking Alternatives to Soviet Gas*. 9

Zaire-US: *Mobutu's Frustrations* 10



25X1

25X1



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UK-ARGENTINA: Continuing Negotiations

//Some optimism was injected into the negotiations by statements by Argentine and British leaders, although public support for further military action remains strong in both countries and room for political maneuvering is restricted.

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President Galtieri, in an interview yesterday with British journalists, offered to start talks simply to pursue the Argentines' "objective" of sovereignty over a "reasonable" period. The context of his remarks indicated again that the Argentines are prepared to be more flexible on the sovereignty question as a precondition to negotiations.

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//Prime Minister Thatcher and Foreign Secretary Pym yesterday stressed to the House of Commons that withdrawal of Argentine troops from the Falklands should precede withdrawal of the British task force. Pym, while indicating that he believed Argentina was for the first time "genuinely willing" to reach a settlement, warned that military incidents could occur with "increasing frequency" as the blockade is tightened and stated that military pressure was having an effect in Buenos Aires.

//Both Thatcher and Pym emphasized that Argentina's attitude toward "eventual sovereignty" was not acceptable. Thatcher repeated that her objective remains to allow the residents of the Falklands to live under the government of their choice. The latest opinion polls show 71-percent approval for the government's handling of the crisis, and rightwing newspapers are increasing pressure on the government to maintain its tough stance.

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//Leaders of the Labor Party yesterday strengthened their support for a negotiated settlement. They reportedly urged party members to lobby those in the government who appear less committed to a military solution.

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//British UN representative Parsons said yesterday in New York that he had received "fresh instructions" from London and had conducted a "very serious and profound" discussion with UN Secretary General Perez de Cuellar.//

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Comment: //Although Galtieri's comments reflect further movement toward the essentials of the UN peace proposal, they also open him to greater political risk. Columnists and a major Peronist figure already have attacked any retreat on the sovereignty question. In addition, the public belief that Buenos Aires is winning the war, would limit popular understanding of a major capitulation on the sovereignty issue.//

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//Thatcher's tough words reflect renewed confidence in public support for a hard line and in the UK's military capabilities, as well as an intention to keep the pressure on Buenos Aires. She also is attempting to reassure Tory backbenchers and the rightwing press, who fear that the government could grab too quickly at a UN-sponsored deal that would require humiliating concessions.//

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//The Labor and Social Democratic - Liberal opposition, however, will not be pleased with Thatcher's renewed emphasis on the wishes of the Falklanders as a decisive factor in a settlement. Neither the government nor the public would be likely to allow the Falklanders to veto an otherwise acceptable solution, and Thatcher could be open to attack for complicating negotiations.//

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Charges Against US Ambassador

A well-known Argentine columnist and a senior government official have alleged that the US Ambassador has been meeting with civilian politicians and anti-Galtieri military officers to engineer Galtieri's ouster. Galtieri has told a US official that he was aware of meetings between the Ambassador and the politicians and labor chiefs. The Embassy reports that such meetings have not occurred.

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Comment: Although some military officers probably believe that the US favors the ouster of Galtieri, Argentine officials in any event would have good reason to spread such trumped-up charges to isolate the US and to discredit politicians and disaffected military elements by associating them with the US. [redacted]

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Shipping Insurance Canceled

London insurance underwriters announced yesterday that, as of 27 May, existing war-risk insurance on merchant ships traveling through South Atlantic - Argentine waters will be canceled. Effective immediately, all shipowners will have to negotiate new coverage at substantially higher rates. [redacted]

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Comment: //War-risk insurance rates normally run at 0.025 percent of a ship's value for trips of less than a week, but during recent conflicts they have been raised to as high as 3 percent for ships in the affected zone. Such high rates could easily affect 60 percent of the merchant ships in Argentine trade and will substantially increase the cost of moving the country's imports and exports.// [redacted]

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//If the new negotiated rates are sufficiently high, some international traffic will have to reroute through the more expensive Panama Canal. The Argentines and their trading partners probably will have difficulty lining up vessels for the trade, including grain ships for the USSR.// [redacted]

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POLAND: Strikes and Demonstrations

Sporadic strikes and a clash between young people and the police yesterday in Krakow, in southern Poland, marked the beginning of the sixth month of martial law. [redacted] 25X1

The violence in Krakow erupted when police with clubs, tear gas, and water cannons charged a crowd of about 10,000. The young people had gathered after a mass that has been said on the 13th of every month since the imposition of martial law. Police also broke up a similar but smaller demonstration in Warsaw. [redacted] 25X1

Demonstrations and strikes earlier in the day had been peaceful. Officials of the US Embassy stated that several thousand Poles gathered at a major intersection in Warsaw city but dispersed without incident after the police moved into the area. About 5,000 to 6,000 students at Warsaw University reportedly observed the strike by leaving their classrooms. [redacted] 25X1

Preliminary information indicates that workers staged scattered strikes despite heavy police presence and warnings of severe consequences. [redacted] 25X1

[redacted] Western press reports claim that short strikes occurred in other major cities. [redacted] 25X1

Comment: The worker strikes probably were less widespread than some Solidarity activists had hoped but more extensive than the regime admits. The day's events were, however, a clear demonstration that the population is increasingly willing to challenge the authorities and that Solidarity activists can control some of this sentiment. Tensions remain high, and additional violence in the coming weeks is probable. [redacted] 25X1

The most serious immediate consequences may fall on university students and the Church. If the regime carries out its threat to expel students for demonstrating, to fire the more popular professors, or to close the universities, there will be more clashes. [redacted] 25X1

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NATO: Reactions to MBFR Proposal

//The UK, West Germany, and most other NATO Allies appear to have overcome their initial skepticism about presenting a new US draft treaty for a single stage MBFR agreement at Vienna immediately after the NATO summit in June.// [redacted]

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//The Allies, except for France, welcome the US proposal as a complement to START and INF and as an improvement over the existing two-phase negotiating procedure, which defers the more difficult issues to the second stage. Many prefer a comprehensive approach, because it requires agreement on the central issue of troop data at the same time that modest initial withdrawals of US and Soviet forces are made. The Allies favor announcing the new approach at the summit in order to give the West the initiative.// [redacted]

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//London and Bonn favor presenting the draft treaty at Vienna as soon as possible after the summit. Both indicate it may not be necessary to present all details initially, but they believe that it may be feasible to develop negotiating strategies on complicated procedures dealing with troops on rotation, reserve training, and forces deployed for crisis management in the area of reductions. The UK has circulated a paper suggesting potential areas of negotiating flexibility.// [redacted]

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//The Dutch, like some who support the plan, question the exclusion of constraints on armaments in the proposed treaty. France and West Germany argue that the West also should signal its intention to renew the Paris-sponsored European Disarmament Conference. The Turks are concerned about the treaty's impact on flank security.// [redacted]

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Comment: //It may be difficult to complete work on a formal draft before the summit. The Allies are concerned about the imbalance in conventional forces in Europe and about possible unilateral reductions by the US, and they will want to scrutinize the US proposals. They are convinced the summit provides the best forum for announcing the new initiative, and would react against French efforts to block the current initiative.// [redacted]

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DOMINICAN REPUBLIC: Election Outlook

The general elections are likely to proceed as scheduled on
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Comment: In the jittery political atmosphere, the possibility of a coup attempt or other disruption cannot be discounted. Former President Balaguer is expected to lose his bid for a fourth elected term, and he may withdraw from the race at the last minute, hoping to provoke a takeover by the extremely conservative military.

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The armed forces distrust the probable victor, Salvador Jorge Blanco, partly because he has several radical leftists in his advisory group. They will be reluctant to intervene, however, because they know the US strongly favors orderly elections, the Army Chief of Staff supports them, and intervention would provoke a violent public reaction. The interregnum preceding the winner's inauguration in August probably will be tense

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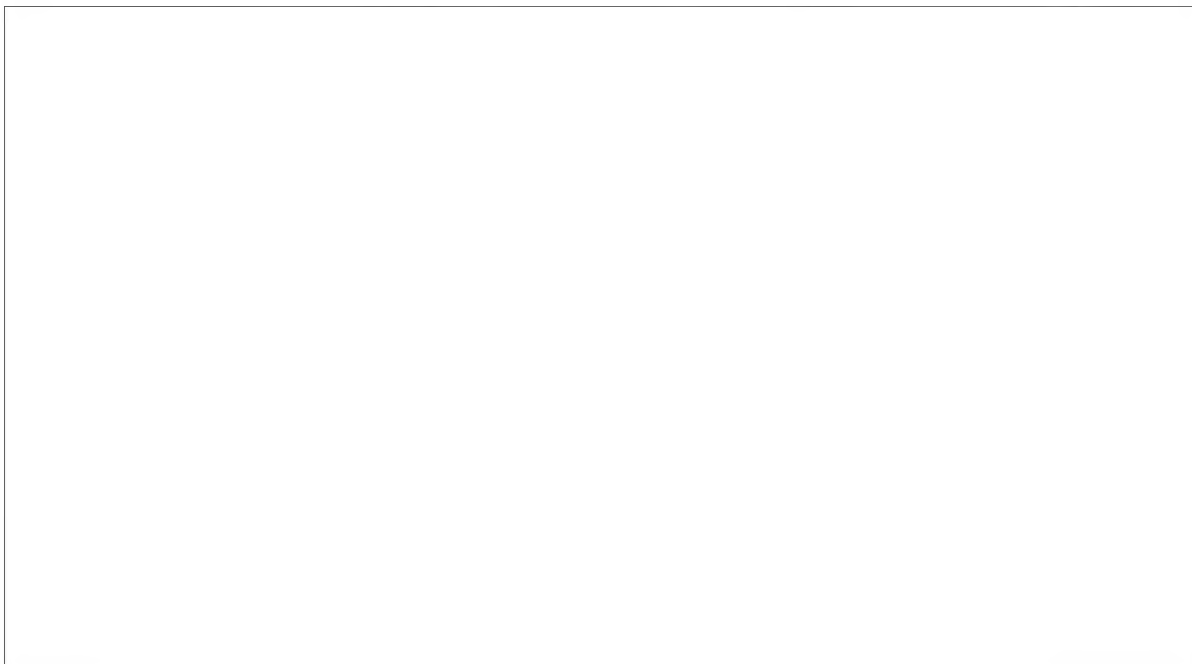
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BELGIUM-USSR: Seeking Alternatives to Soviet Gas

Distrigas, the Belgian gas distributor, and the USSR will soon agree on a gas purchase contract of about 3 billion cubic meters annually--equivalent to 25 percent of total gas needs by the end of the decade. The Belgian Government is pursuing alternatives to importing Soviet natural gas, however, and has informed Moscow that any decision will not be made quickly. The Belgians have approached the Dutch about the possibility of purchasing additional quantities of Dutch gas to replace the need for Soviet gas. The Belgians also have discussed with the Norwegians and the UK the prospects of securing additional supplies from the North Sea. [redacted]

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Comment: Alternative gas supplies would enable Brussels to reject the proposed contract or reduce the amount purchased. The recent discovery of new gasfields in the Netherlands and the need to increase government revenue make it likely that the Dutch will supply the Belgians with the additional gas. Small additional Norwegian supplies could be made available to Belgium via a swap arrangement with the UK by 1990. [redacted]

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ZAIRE-US: Mobutu's Frustrations

//President Mobutu reportedly has decided to "renounce" US economic aid. According to Zaire's official news agency, Mobutu's action was prompted by US Congressional action this week to sharply reduce US military aid to Zaire and by US statements that some previous aid has been embezzled by Zairian officials. Mobutu also has been distressed that the US has not fully supported Zairian efforts to obtain assistance from the IMF, which is withholding parts of a \$1.1 billion loan because of Mobutu's unwillingness to carry out stringent economic reforms. The President has been unhappy over pressure from Washington to adopt such reforms and over US criticism of his government's suppression of domestic critics.//

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Comment: //Zaire's acute need for foreign aid probably will militate against a decision to forgo US aid, but Mobutu is likely to look for other ways to show his pique. He could decide, for example, to withhold support for US initiatives at the UN--where Zaire sits on the Security Council--or to look for a way to withdraw the Zairian contingent from the peacekeeping force in Chad.//

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